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No. 14-1513

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC.,

Petitioner,

v.

PULSE ELECTRONICS, INC. AND
PULSE ELECTRONICS CORPORATION,

Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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QUESTION PRESENTED

Section 284 of the Patent Act provides that a court presiding over an action for patent infringement may increase the damages awarded to a successful patent holder up to three times the compensatory damages assessed. It has been settled for more than 150 years that this authority to increase damages may be exercised only where the infringer acted in a willful manner warranting punishment. The question presented in this case is:

Whether a defendant may be held to have engaged in willful infringement required for the assessment of punitive damages under section 284, where that defendant, on first learning of the patents, analyzed them and concluded that they were invalid and, after being accused of infringement in litigation, presented an invalidity defense that, although ultimately unsuccessful, was nonetheless substantial and objectively reasonable.

RULES 14.1(b) AND 29.6 STATEMENT

All parties are identified in the caption of this opposition brief.

Pulse Electronics, Inc. operates as a subsidiary of Pulse Electronics Corporation. Pulse Electronics Corporation is a direct, wholly owned subsidiary of OCM PE Holdings, L.P., a wholly owned indirect subsidiary of Oaktree Capital Group LLC (NYSE:OAK).

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OPINIONS BELOW

The district court granted summary judgment of non-infringement with respect to Pulse products made, sold, and offered for sale outside the United States, a decision reported at 810 F. Supp. 2d 1173 (D. Nev. 2011), and reproduced at Pet. App. 67a-136a. The district court granted judgment as a matter of law of no willful infringement, as reported at 2013 WL 2319145 (D. Nev. May 28, 2013), and reproduced at Pet. App. 32a-66a. The court of appeals affirmed both judgments (Pet. App. 1a-31a), as reported at 769 F.3d 1371 (Fed. Cir. 2014), and denied panel rehearing and rehearing en banc (Pet. App. 137a-154a), as reported at 780 F.3d 1357 (Fed. Cir. 2015).

JURISDICTION

The Federal Circuit's panel opinion issued on October 22, 2014, and that court denied timely petitions for panel rehearing and rehearing en banc on March 23, 2015. Petitioner Halo Electronics, Inc. ("Halo") petitioned for certiorari on June 22, 2015, and the Court granted Halo's petition in part on October 19, 2015. This Court has jurisdiction under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 284 of Title 35 provides as follows:

> Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

> When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).
>
> The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

INTRODUCTION

For more than 150 years, United States patent statutes have allowed federal courts to increase the damages awarded for patent infringement up to three times the amount assessed. Throughout that time, this Court and the lower federal courts have understood that such increased damages are punitive in nature and, as such, may be awarded only for culpable conduct warranting punishment, specifically, willful infringement. And over the same period, Congress has made clear that the courts' understanding of the enhancement provision was correct and that willful infringement is a prerequisite to increased infringement damages. Willful infringement, like other willful misconduct, requires at a minimum that the defendant act in the face of an objectively obvious risk that it is violating the patentee's legitimate rights.

In *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), the en banc Federal Circuit adopted a standard for identifying such willful infringement that is consistent both with the history and purpose of Section 284, and with the broader policies underlying the patent laws—specifically, to provide appropriate incentives for inventors, while

encouraging competitors and the public to innovate up to the very edges of legitimate patent monopolies and to proceed without being hamstrung by illegitimate monopolies. The *Seagate* standard, under which punitive, increased damages may be assessed only where an infringer acted willfully and behaved in a way that cannot be justified by objectively reasonable doubts about a patent's scope or validity, protects patent owners from willful violations of their legitimate rights, but still allows competitors and the public to innovate and challenge patent monopolies without the risk of being punished for doing so.

In this case, Respondent Pulse was confronted with Halo patents that, a Pulse engineer determined, described nothing more than obvious, trivial variants of products that others, including Pulse itself, had previously manufactured and sold. Pulse, which Halo had not accused of infringement, continued to sell its products. Years later, when Halo finally did accuse Pulse of infringement by filing this lawsuit, Pulse established, first, that the vast bulk of its supposedly infringing sales had no connection to this country and thus could not infringe Halo's U.S. patents as a matter of law and, second, that as its engineer had recognized years earlier, all of the elements of Halo's claimed inventions could be found in the prior art. Although the jury ultimately did not accept Pulse's defense that the Halo patents were invalid, it is undisputed here that, as the Federal Circuit held, Pulse raised "a substantial question as to the obviousness of the Halo patents." Pet. App. 21a.

On this record, the district court and Federal Circuit both properly concluded that increased damages were not available. That result was plainly correct under the *Seagate* standard, and Halo does

not argue to the contrary. That result was also correct under any standard that takes into account the punitive nature of increased damages under Section 284 and the corresponding need for a showing of willful misconduct before such damages may be awarded. The judgment should be affirmed.

STATEMENT

Halo sued Pulse in 2007, alleging that Pulse infringed various claims of three related patents by making and selling certain electronic components. The district court entered summary judgment rejecting Halo's infringement claims with respect to the vast majority of the accused Pulse sales, a ruling the Federal Circuit affirmed on appeal. The case went to trial on the relatively few remaining accused sales. The jury found that these Pulse sales infringed the Halo patents and awarded reasonable royalty damages of $1.5 million. The jury and district court rejected Pulse's defense that the Halo patents were invalid as obvious. Although the jury found that it was highly probable that Pulse's infringement was willful, the district court found that Pulse had not engaged in willful infringement because Pulse had reasonably relied on its obviousness defense. The Federal Circuit affirmed these determinations as well.

1. The three patents at issue, all derived from a single application, are directed to surface mount electronic packages containing magnets used as transformers for mounting on printed circuit boards for use in devices such as computers and routers. Pet. App. 4a. Halo makes and sells such components in the United States. Pulse likewise designs and sells surface mount electronic packages, but does so primarily outside the United States, with only a

relatively small part of its sales involving deliveries to customers in this country. *Id.*, 5a.

In 2002, Halo sent Pulse two letters referencing its patents and offering to negotiate for licenses. Halo did not, however, accuse any Pulse products of infringing its patents or provide any analysis or comparison of its patents' claims to any Pulse products. *Id.*, 7a. Upon receiving Halo's letters, Pulse's president instructed a Pulse engineer to review the patents. After doing so, that engineer concluded that the products described in the patents were indistinguishable from products Pulse had sold years earlier.[1] Pulse therefore did not respond to Halo's license offer and continued to sell its surface mount products. *Id.*

2. Five years later, Halo sued Pulse for infringement. This was the first time Halo accused any Pulse product of infringing any of its patents. Pulse promptly asserted defenses and counterclaims, including, among others, that the patents were invalid because they were obvious in light of the prior art, and that the vast majority of the products Halo accused of infringement were not made, used, sold, or offered for sale in the United States and thus could not infringe Halo's patents regardless of their scope or validity. *Id.*

Pulse moved for summary judgment of non-infringement with respect to the products it made,

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[1] Halo makes much of the fact that the Pulse engineer devoted "only" about two hours to reviewing the patents. *E.g.*, Halo Br. 5. Halo neglects to mention, however, that each of the patents, which are all substantially identical, consists of no more than five pages of text, much of which simply recounts information admittedly already known to those of ordinary skill in the art, and several pages of accompanying drawings.

sold, and offered for sale outside the United States. Halo vigorously opposed that motion, but the district court rejected its arguments and entered judgment as a matter of law for Pulse on those sales, *id.*, 128a-130a, leaving Halo with a much narrower case of dramatically lower value.

That case was tried to a jury, which concluded, as noted above, that Pulse's sales in the United States infringed the Halo patents; Pulse had not proven that those patents were invalid as obvious; and it was highly probable that Pulse's infringement was willful. Pulse challenged those determinations, particularly with respect to invalidity, in post-trial motions. In considering Pulse's arguments as to obviousness, the district court found Pulse had shown that "all of the elements of the asserted claims, save two, were present in the prior art," *id.*, 38a, and that Pulse's expert had testified that "it would have been obvious and logical to combine" those elements to produce Halo's claimed invention, *id.* Pulse also had presented evidence on the *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1 (1966), factors which pointed to a conclusion that Halo's claims would have been obvious. Pet. App. 40a-44a. The district court held, however, that because Pulse had failed to move for a judgment of obviousness at the close of the evidence, the factual findings implicit in the jury's verdict must be accepted as true, *id.*, 36a, and that Pulse's obviousness defense therefore could not be accepted.

The lack of a motion for judgment, however, did not affect the question of willful infringement. As the district court held, its task was to "determine[] the reasonableness of [Pulse's] defenses in light of all of the evidence," and so it was not bound by the jury's implicit findings. *Id.*, 62a n.3. Based on its review of

the evidence, the district court found that Pulse had presented substantial evidence supporting each element of its obviousness defense, had "reasonably relied" on that defense, and "did not act in the face of an objectively high likelihood that [it] was infringing." *Id.*, 64a-65a. The court therefore rejected Halo's contention that Pulse's infringement had been willful. *Id.*, 65a.

3. a. Halo appealed, challenging the district court's ruling that most of Pulse's sales did not infringe and that Pulse's infringement in connection with the remaining sales was not willful. Pulse cross-appealed with respect to invalidity and infringement. The Federal Circuit affirmed the district court in all respects.

The court of appeals first rejected Halo's arguments with respect to infringement, holding that the undisputed record established for most of the sales at issue that Pulse had neither sold nor offered to sell the accused products in the United States. *Id.*, 14a, 19a. The court thus affirmed the district court's determination that Halo had failed to establish liability with respect to the bulk of the sales it had accused of infringement. This issue is not before this Court.

The court of appeals affirmed as to obviousness as well, relying exclusively upon Pulse's failure to move for judgment as a matter of law during trial:

> It is true that the record evidence indisputably shows that almost all the limitations in the asserted claims were known elements of electronic packages that existed in the prior art. However, Pulse did not file a motion during trial under Fed. R. Civ. P. 50(a) on the issue of obviousness before that issue was submitted to

> the jury and thus waived its right to challenge the jury's implicit factual findings underlying the nonobviousness general verdict. The district court thus correctly presumed that the jury resolved all factual disputes relating to the scope and content of the prior art and secondary considerations in Halo's favor. Based upon those presumed factual findings, the court did not err in reaching the ultimate legal conclusion that the asserted claims were not invalid for obviousness.

Id., 22a-23a.

With respect to willful infringement, the court of appeals observed that Halo had given Pulse notice of its patents in 2002 and that, even though Halo did not then accuse Pulse of infringing those patents, Pulse had reviewed the patents and concluded that they were likely invalid in light of prior art products. *Id.*, 20a-21a. Likewise, at trial Pulse had presented "a substantial question as to the obviousness of the Halo patents." *Id.*, 21a. As the court explained:

> Pulse presented evidence that the prior art disclosed each element of the asserted claims, that it would have been predictable to combine and modify the prior art to create the claimed electronic packages, and that there were differences between the prior art considered by the PTO and the prior art introduced at trial. Pulse also challenged Halo's evidence of secondary considerations.

Id., 21a (citation omitted). Thus, the district court "properly considered the totality of the record evidence, including the obviousness defense that Pulse developed during the litigation," in finding no willfulness. *Id.*, 21a.

Judge O'Malley, joined by Judge Hughes, concurred, but wrote separately to suggest that the court of appeals reexamine its standard for the imposition of increased damages. In their view, this Court's decisions in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and *Highmark, Inc. v. Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014), called for a review of the *Seagate* standard, and of the question whether the jury should play a role in the enhancement decision. Pet. App. 25a-31a. But Judges O'Malley and Hughes agreed that, under existing law, Halo had failed to establish any entitlement to increased infringement damages.

b. Halo petitioned for rehearing en banc with respect to the panel's willful infringement holding. The en banc court of appeals denied the petition, over a dissent by Judge O'Malley, again joined by Judge Hughes, that largely restated their panel concurrence.

Judge Taranto, joined by Judge Reyna, filed an opinion concurring in the denial of rehearing. Judge Taranto observed that although a variety of questions might be raised concerning the standard for increased damages, most were not raised by Halo in this case. Halo did not dispute, for example, that willful infringement was a necessary predicate for an award of increased damages under section 284. *Id.*, 144a. Judge Taranto noted in this regard that the legislative history of the America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), made clear that Congress was aware of the *Seagate* standard for increased damages under Section 284 and chose not to amend that statute, and took other actions that indicated it accepted willfulness as a pre-condition to

increased damages under Section 284. Pet. App. 141a-142a.

Judge Taranto noted that beyond not disputing the predicate requirement of willful infringement, Halo also had not raised any questions regarding who was to make the enhancement decision (judge or jury), the standard of proof, or the standard of review on appeal.[2] The only question Halo had raised was whether the objective reasonableness of Pulse's invalidity defense must be assessed based only on Pulse's beliefs at the time of infringement. That question, Judge Taranto explained, was readily answered in the negative by controlling precedent, in particular this Court's "authoritative *Safeco* [*Insurance Co. of America v. Burr*, 551 U.S. 47 (2007)] decision addressing the meaning of 'willfulness' in non-criminal contexts," *id.*, 144a-145a, an answer not affected in any way by the decision in *Octane*.

SUMMARY OF THE ARGUMENT

1. Proof of willful patent infringement is required for an award of increased damages under Section 284. Congress enacted Section 284 in 1952 in the face of more than a century of statutory history and case law that made clear that increased damages were a punitive remedy available only for the kind of aggravated, malicious infringement that would today be described as willful. This settled understanding was incorporated into Section 284's enhancement provision in 1952. Since then, Congress and this Court have underscored that Section 284 authorizes

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[2] With respect to the standard of appellate review, Judge Taranto noted that beyond Halo's waiver, the standard of review was not an issue in this case in any event, given that the district court had rejected Halo's claim of willful infringement at trial. Pet. App. 144a.

the award of increased damages only in cases involving willful infringement. Beyond this legislative history and patent-law precedent, the common law and due process principles that apply to punitive damages in general independently compel the conclusion that increased damages may be awarded only for willful infringement.

2. The Federal Circuit's *Seagate* decision established an appropriate, dependable, and fair methodology for determining which cases involving patent infringement are appropriate for awards of increased damages under Section 284. That decision was the result of the proper interpretation of the history of the statutory provision, Congress's intent reflected in that history, and prior case law. The *Seagate* test for willful infringement reflects the analysis applied by this Court and the regional circuit courts prior to 1982, and it embodies well-settled concepts of willfulness from other areas of law, where willfulness requires at least reckless disregard for the rights of another, with recklessness assessed by an objective standard.

3. Sound policy considerations weigh heavily in favor of the view that Section 284 authorizes an award of increased damages only for willful patent infringement. A less-stringent standard will threaten innovation by discouraging competitors and the public from challenging the scope and validity of patent monopolies. As this Court has recognized, a patent right is a two-edged sword which, when kept within proper limits, will spur invention and creativity, but when expansively applied will stifle competition and innovation. Petitioners' ambiguous and freewheeling "totality of the circumstances" test poses that danger by making increased damages both too readily available and utterly unpredictable.

Further, a lower bar for increased damages will result in an increase in demands and lawsuits by non-practicing entities aimed at extracting unjustified settlements and licensing fees from those who actually develop, make, and sell products. Efforts to extort windfalls of this type will increase costs and consumer prices while providing no countervailing public benefits.

4. Because of the fundamental differences between Sections 284 and 285, this Court's decisions in *Octane* and *Highmark* regarding attorneys' fees are not inconsistent with, nor do they call for a change in, the Federal Circuit's approach to increased infringement damages. Neither the long-established willfulness requirement in general, nor the standard applied in *Seagate*, is called into question by *Octane* and *Highmark* because nothing in either opinion addressed increased damages under the Patent Act. Sections 284 and 285, although adjacent to one another in the U.S. Code, are largely unrelated, with vastly different purposes, legislative histories, and judicial interpretations. Moreover, the policy considerations that supported the results in *Octane* and *Highmark* point to affirmance of the existing standard in this case.

ARGUMENT

I. INCREASED DAMAGES CAN BE AWARDED UNDER SECTION 284 ONLY IF THE DISTRICT COURT DETERMINES THAT THERE HAS BEEN WILLFUL PATENT INFRINGEMENT.

Since 1836, increased damages for patent infringement have been available only for aggravated, malicious—*i.e.*, willful—patent infringement. Like punitive damages in other contexts, the

enhancement remedy is designed to make an example of those whose conduct is not just unlawful but *willfully* so. Congress has had ample opportunity to alter the prevailing rule—including when it enacted Section 284—but it has chosen not to do so. Instead, through a series of recent amendments to the Patent Act, Congress has repeatedly reaffirmed the willfulness requirement.

A. When Congress Enacted Section 284, It Did So Against The Backdrop Of A Long-Established Willfulness Requirement.

1. Section 284 was enacted as part of the 1952 Patent Act, but it ultimately traces back to the 1836 Act, which overhauled the nation's patent system to deal with the harms arising from a massive proliferation of bad patents. Prior to 1836, patents were granted without any formal review of the novelty of the applicant's claimed invention, and treble damages were mandatory. Patent Act of 1793, ch. 11, § 3, 1 Stat. 318, 321-22 (issuance requirements); *id.* § 5 (treble damages), 1 Stat. at 322. This system "flooded" the nation with patents, giving rise to a "great number of lawsuits" that were "ruinous to the parties." S. Rep. No. 24-338, at 3 (1836). As the sponsor of the 1836 Act explained in a report to the Senate—in terms that find echoes in the modern rise of non-practicing entities—owners of purported "inventions" long in public use, "armed" with invalid patents, "scour[ed] the country, and by threats of prosecution, compel[led] those who [were] found using the thing patented, to pay the patent price or commutation tribute. This exaction, unjust and iniquitous as it [was], [was] usually submitted to." *Id.* at 3-4.

Against this backdrop, the 1836 Act is best known for its creation of the modern patent examination

process to block issuance of invalid patents, but more pertinent here, it also replaced mandatory treble damages with a discretionary regime that reserved increased damages for wanton and malicious infringement. As this Court explained in *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 488 (1854):

> Experience had shown the very great injustice of a horizontal rule equally affecting all cases, without regard to their peculiar merits. The defendant who acted in ignorance or good faith, claiming under a junior patent, was made liable to the same penalty with the wanton and malicious pirate. This rule was manifestly unjust.

In contrast to the earlier regime, the 1836 Act gave courts authority "to inflict vindictive or punitive damages." *Id.* at 489.

Seymour is in line with other early decisions from this Court recognizing the punitive and extraordinary nature of increased damages under the 1836 Act. In *Dean v. Mason*, 61 U.S. (20 How.) 198, 203 (1858), for example, the Court noted that compensatory damages are generally "sufficient to protect the rights of the owner; but where the wrong has been done, under aggravated circumstances, the court has the power, under the statute, to punish it adequately, by an increase of the damages." *See also Tilghman v. Proctor*, 125 U.S. 136, 143-44 (1888) ("[T]he court may, whenever the circumstances of the case appear to require it, inflict vindictive or punitive damages, by rendering judgment for not more than thrice the amount of the verdict."); *Root v. Railway*, 105 U.S. 189, 196 (1882) (1836 Act allowed the court to "inflict punitive damages to the extent of trebling the verdict"). And the lower courts followed this Court's direction in this respect, noting that departure from

the "general rule" of actual damages was appropriate only for "aggravated" cases—as opposed to cases where an infringer "honestly supposed that [the patent] was void." *Guyon v. Serrell*, 1 Blatchf. 244, 246 (C.C.S.D.N.Y. 1847); *see also, e.g.*, *Carr v. Rice*, 5 F. Cas. 140, 145 (C.C.S.D.N.Y. 1856) (No. 2,440) ("There can be rarely occasion for vindictive damages; because, almost invariably, the infringement arises out of some colorable claim of right, by the party sued.").

Making actual damages the rule and punitive damages the exception brought patent infringement in line with other torts. As *Seymour* noted, "there is no good reason why taking a man's property in an invention should be trebly punished, while the measure of damages as to other property is single and actual damages [except] where the injury is wanton or malicious." 57 U.S. (16 How.) at 488-89. And as is true for other punitive remedies, the authority to increase damages for patent infringement has always been limited. Indeed, from the earliest days under the 1836 Act, enhancement has been reserved for cases of willful misconduct.

2. This Court's first cases analyzing increased patent damages under the 1836 Act drew a sharp distinction between "good faith" infringers, on the one hand, and "willful" or "wanton" infringers, on the other. Under these cases, the "good faith" infringer would pay only actual damages, but the "willful" infringer—the "pirate"—could face increased damages. *See, e.g.*, *id.* at 488 (distinguishing between a "defendant who acted in ignorance or good faith" and "the wanton and malicious pirate"); *Corning v. Burden*, 56 U.S. (15 How.) 252, 271 (1854) (explaining that a defendant acting "in good faith," was not "a wanton infringer," and should not face "the same

stringent and harsh rule of damages which might be justly inflicted on a mere pirate"); *Livingston v. Woodworth*, 56 U.S. (15 How.) 546, 560 (1854) (holding that the accused infringers, who were not "wanton infringers," should not face "damages, by way of penalty"); *Hogg v. Emerson*, 52 U.S. (11 How.) 587, 607 (1850) (explaining that, under the 1836 Act, treble damages were inappropriate "if the maker of the machine appeared in truth to be ignorant of the existence of the patent right, and did not intend any infringement").

The early cases from the lower courts are in accord. Many courts recognized that the object of increased damages under the 1836 Act was to deal with "the case of a willful and aggravated violation of a patent right." *Merchant v. Lewis*, 17 F. Cas. 37, 37 (C.C.S.D. Ohio 1857) (No. 9,437); *Bell v. McCullough*, 3 F. Cas. 108, 109 (C.C.S.D. Ohio 1858) (No. 1,256) ("The object of this provision was to remunerate patentees who were compelled to sustain their patents against wanton and persevering infringers."); *Brodie v. Ophir Silver Mining Co.*, 4 F. Cas. 202, 203-04 (C.C.D. Cal. 1867) (No. 1,919) (Field, J.) (explaining that enhancement authority "should only be exercised to remunerate parties who have been driven to litigation to sustain their patents by wanton and persistent infringement"); *Buerk v. Imhaeuser*, 4 F. Cas. 594, 595 (C.C.S.D.N.Y. 1876) (No. 2,107) ("They were not willful infringers, and, therefore, are not to be visited with punitive damages."); *Ford v. Kurtz*, 12 F. 789, 789 (C.C.N.D. Ill. 1882) (Harlan, J.) (holding that, because infringement "was neither wilful nor malicious," the case did "not justify a decree . . . beyond the net profits realized from the manufacture and sale of the patented articles"); *Morss v. Union Form Co.*, 39 F. 468, 474 (C.C.D. Conn. 1889)

(refusing to enhance based merely on defendants' "forceful method of business," but allowing enhancement during a narrow window of time in which infringement was "willful or wanton"); *Rockwood v. Gen. Fire Extinguisher Co.*, 37 F.2d 62, 66 (2d Cir. 1930) ("In the absence of a deliberate purpose to infringe, no such punitive damages should have been granted.").

Furthermore, courts refused to award increased damages where the infringer had good reason to believe the accused conduct was lawful, such as where the patent's validity was questionable.[3] *See, e.g.*, *Guyon*, 1 Blatchf. at 246 (refusing enhancement where the infringer may "have honestly supposed that [the patent] was void"); *B.F. Goodrich Co. v. Consol. Rubber Tire Co.*, 251 F. 617, 624-25 (7th Cir. 1918) ("It is, of course, the rule that, if the manufacturer honestly believed that he had a right to manufacture this rubber tire, he should not be mulcted in punitive damages."); *Egry Register Co. v. Standard Register Co.*, 23 F.2d 438, 443 (6th Cir. 1928) (holding that there was no basis for enhancement where conduct was not "willful," since

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[3] Petitioners argue that *Topliff v. Topliff*, 145 U.S. 156 (1892), holds that increased damages may be appropriate even where a patent's validity is subject to doubt. Halo Br. 24-25; Stryker Br. 48 n.12. In doing so, Petitioners misleadingly suggest that *Topliff* involved a "patented device" covered by a single patent of dubious validity, when in fact *Topliff* involved two separate patents, only one of which presented a close question on validity. *Compare* 145 U.S. at 161 (affirming without reservation the validity of Augur patent), *with id.* at 164 (noting that validity of Topliff and Ely reissue patent was "by no means free from doubt"). *Topliff* is therefore consistent with *Seagate*: a defendant's objectively reasonable defense to the infringement of one patent does not immunize him from increased damages where his infringement involves others as well.

"[b]oth as to validity and infringement there was doubt"). Under these cases, willful misconduct was not merely a factor to be weighed; it was an absolute prerequisite to enhancement.

3. This is the backdrop against which Congress passed Section 284 as part of the Patent Act of 1952. Guided by *Seymour* and other early decisions of this Court, the law had clearly settled on a willfulness requirement, notwithstanding the seemingly open-ended language of the statute. Congress obviously could have superseded the prevailing rule, but it did not do so. To the contrary, Section 284 merely consolidated the two prior statutory provisions (one for actions at law and the other for claims in equity), without altering in any way the existing practice in the federal courts. *See* S. Rep. No. 82-1979, at 29 (1952); H.R. Rep. No. 82-1923, at 29 (1952); *see also* 35 U.S.C. § 284 (2012) ("Historical and Revision Notes").

Where Congress legislates against the backdrop of such a consistent body of law, and expresses no dissatisfaction with it and no intent to change it, it is understood to have incorporated that prior law into the statute. *See, e.g., Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2246 (2011); *Neder v. United States*, 527 U.S. 1, 23 (1999) (invoking the "rule that Congress intends to incorporate the well-settled meaning of the common-law terms it uses").

On this point, *Microsoft* is particularly instructive. In *Microsoft*, as in this case, the petitioner argued that the Federal Circuit had created a specific rule—there, a standard of proof for invalidity; here, a willfulness requirement—where the statute's text did not expressly prescribe that rule. *See* Petition at 2, *Microsoft v. i4i*, No. 10-290 (S. Ct. Aug. 27, 2010). But in *Microsoft*, as in this case, the specific rule had

long been applied by the time Congress enacted the specific provision at issue. As this Court explained, "had Congress intended to drop" the established rule, "we assume it would have said so expressly." *Microsoft*, 131 S. Ct. at 2250.

Willfulness had been a prerequisite for increased damages for more than 100 years when Congress enacted Section 284, and nothing in Section 284 indicates any intent to change course. The statute is therefore best read to incorporate the existing willfulness requirement.

B. Since 1952, Congress And The Courts Have Left Untouched And Reaffirmed The Willfulness Requirement This Court Has Imposed For Increased Damages.

1. This Court's decisions since 1952, along with the weight of the authority in the lower courts prior to the creation of the Federal Circuit, further support the willfulness requirement for increased damages. In *Aro II*, for example, the Court indicated that a patentee "could in a case of willful or bad-faith infringement recover punitive or 'increased' damages under the statute's trebling provision." *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 508 (1964) (*Aro II*) (plurality). Likewise, *Dowling v. United States*, 473 U.S. 207, 227 n.19 (1985), noted that the patent laws permitted "treble damages for willful infringement."

Petitioners suggest that *Aro II* and *Dowling* are ambiguous—that the cases stand for the proposition that willfulness may be sufficient for enhancement, but not necessary. Halo Br. 21; Stryker Br. 34. But Petitioners never explain why, if enhancement is permitted in such a wide range of circumstances, this Court has consistently singled out *willfulness* as the

relevant inquiry. Nor do they explain how *Aro II* and *Dowling* can remain ambiguous when read in light of the century of cases that preceded them. In truth, it is more sensible to read those statements to reflect the principle that willfulness is a necessary, but not sufficient, requirement for enhanced damages and that the district court, even after finding willfulness, would have discretion not to award any additional damages or to award less than treble damages.

In any event, long before *Seagate*, the regional courts of appeals reaffirmed the willfulness requirement under Section 284. The Sixth Circuit, for example, held that "there *must* be a finding that the infringement was wilful" in order to justify increased damages, and that the "existence of honest doubt concerning the validity of a patent precludes a finding of wilfulness." *Eltra Corp. v. Basic Inc.*, 599 F.2d 745, 757 (6th Cir. 1979) (emphasis added); *see also Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960) ("it is only on the basis of conscious and wilful infringement that exemplary or punitive damages are allowed"); *Wilden Pump & Eng'g Co. v. Pressed & Welded Prods. Co.*, 655 F.2d 984, 989 (9th Cir. 1981) ("[I]ntent is crucial to the imposition of increased damages."). Likewise, in *Baumstimler v. Rankin*, 677 F.2d 1061, 1073 (5th Cir. 1982), the Fifth Circuit explained that enhancement was discretionary "when the infringement is willful and wanton," but there was no such willfulness—and could be no enhancement—where the accused infringer "could have maintained a reasonable doubt as to the validity of the . . . patent."

2. Congress has not just acquiesced in the willfulness requirement; it has implicitly endorsed and thereby ratified the requirement in three separate amendments to the Patent Act since 1992.

Patent and Plant Variety Protection Remedy Clarification Act, 106 Stat. 4230 (1992) (Patent Remedy Act). — In 1992, Congress enacted a law that purported to abrogate state sovereign immunity from patent infringement suits. During the debates over what would become the Patent Remedy Act, one of the concerns raised by legislators was that states should not be routinely subjected to treble damages. To address this concern, Senator Thurmond offered an amendment that would have barred treble damages awards against states. S. Rep. No. 102-280, at 9 (1992).

But Senator Thurmond's amendment was not adopted in the face of counter-arguments that treble damages are "awarded in only the most flagrant cases" in light of the willfulness requirement. *Id.* at 10; *see also id.* (explaining that a "plaintiff must prove that the infringement was willful under 35 U.S.C. 284"). Against the backdrop of the willfulness requirement, Congress enacted the statute, which made states liable for "treble damages under section 284." Patent Remedy Act, Pub. L. No. 102-560, § 2, 106 Stat. 4230, 4230 (1992) (enacting 35 U.S.C. § 296(b)). It is inconceivable that Congress would have exposed the states to potentially ruinous liability in the absence of a substantial hurdle to recovering enhanced damages, which of course willfulness is.[4]

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[4] Congress's abrogation of state sovereign immunity for patent cases was struck down in *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999), as beyond Congress's enforcement power under § 5 of the Fourteenth Amendment. But that does not change the fact that, when Congress enacted the statute, it did so in reliance on an understanding that increased damages would be available only for willful misconduct.

Domestic Publication of Foreign Filed Patent Applications Act of 1999, 113 Stat. 1501A-561. — In 1999, Congress enacted another law that endorsed the existing willfulness requirement, this time in connection with so-called "provisional rights."

As a general rule, only an issued patent gives its owner the right to exclude others from practicing an invention, whereas an application for a patent provides no such rights. But when Congress enacted a statute that provided for the broader and earlier publication of patent applications prior to issuance, it worried that an applicant's competitors might copy an invention disclosed in a published patent application with impunity. To address this concern, Congress gave patentees "provisional rights," *i.e.*, the right to obtain (in addition to all other remedies) a reasonable royalty from certain infringers who began making or using the patented invention after the application that led to the patent was published but before the patent issued. *See* 35 U.S.C. § 154(d).

As part of the same law that created provisional rights, Congress amended Section 284 to provide that increased damages "shall not apply to provisional rights under section 154(d)." Pub. L. No. 106-113, § 4506, 113 Stat. 1501A-561, 1501A-566 (1999). A House Report on what would later become this Act (when the bill was reintroduced in the next Congress) explained why increased damages for provisional rights made no sense:

> This amendment has been made because *the willfulness necessary for the award of increased damages* cannot exist in the context of provisional rights because the fact of infringement cannot be determined until a patent has issued. That is, there can be no willful infringement in the period for which

> provisional rights may be available because 'infringement' within that period can only be defined by the terms of the patented claims that are, of course, not available until a patent issues.

H.R. Rep. No. 105-39, at 64 (1997) (emphasis added).

The fact that the amendment to Section 284 was expressly enacted as a "conforming amendment" underscores this point from the legislative history. *See* 113 Stat. at 1501A-566. In light of the willfulness requirement, increased damages under Section 284 for copying an invention disclosed in a patent application are not merely bad policy; they are nonsensical. One cannot willfully infringe before the patent issues, because the claims may change during prosecution of the patent, and the issued claims may be sufficiently narrow that they do not apply to the accused infringer's conduct, or broad enough to give rise to serious validity concerns. On the other hand, Petitioners' reading of Section 284 does not explain why the conforming amendment would have been necessary, since—in the absence of the willfulness requirement—there would be no logical inconsistency between provisional rights and increased damages.

Leahy-Smith America Invents Act, 125 Stat. 284 (2011) (America Invents Act). — Most recently and tellingly, Congress endorsed the existing willfulness requirement in connection with the America Invents Act.

The America Invents Act was passed after years of concerted efforts to reform the patent laws. In earlier iterations, the package of reforms included provisions addressing patent damages, including increased damages. For example, Senator Leahy (a named co-sponsor of the America Invents Act) introduced the Patent Reform Act of 2009, which would have

significantly narrowed the circumstances in which increased damages are available. Patent Reform Act of 2009, S. 515, 111th Cong., § 4 (2009); *see also* S. Rep. No. 111-18, at 12 (2009) (endorsing *Seagate*, including its "objectively reckless standard for finding willful infringement," as "a positive development," but explaining that further "statutory guidance" was required to "reduce unwarranted allegations of willfulness"). But by 2011, in light of the "great strides" in the Federal Circuit's damages jurisprudence, Senator Leahy noted that there was a "consensus that legislation need not and, in fact, should not affect the law of damages." Cong. Rec. S1348, S1350 (daily ed. Mar. 8, 2011) (statement of Sen. Leahy). In other words, Congress determined on further study that the existing law of damages—including the willfulness requirement in general and *Seagate* in particular—should not be disturbed.

Likewise, Senator Kyl, speaking in support of the America Invents Act, explained that the 2009 bill would have made the "grounds for allowing awards of treble damages . . . exceedingly narrow." Cong. Rec. S1360, S1374 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). According to Senator Kyl, "Treble damages are authorized in order to deter manufacturers," when they discover a given feature "is protected by a valid patent," from choosing to "infringe [a] competitor's patent." *Id.* By retaining the existing regime and rejecting the reforms proposed in 2009, the America Invents Act preserved the role of increased damages "as a meaningful deterrent to reckless or wanton conduct." *Id.*

Congress's endorsement of the existing willfulness requirement made its way into the enacted text of the America Invents Act as well. In 35 U.S.C. § 298, Congress enacted a prohibition on the use of an

accused infringer's failure "to obtain advice of counsel" as evidence "that the accused infringer willfully infringed the patent." This provision is unquestionably directed to the willfulness requirement for increased damages, since neither "willfully infringed" nor "willful infringement" appears anywhere else in the Patent Act. The negative inference from failing to obtain advice of counsel emerged from the Federal Circuit's much-criticized decision in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), which misapplied the willfulness concept in a number of ways. *See id.* at 1389-90 (holding that a potential infringer with notice of a patent had an "affirmative duty" to "seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity"); *but see Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmBH v. Dana Corp.*, 383 F.3d 1337, 1341 (Fed. Cir. 2004) (en banc) (abolishing "adverse inference" from "failure to obtain or produce an exculpatory opinion of counsel").

Considered in isolation, the text of Section 298 is consistent with either the established willfulness requirement or with a regime that treats willfulness as sufficient but not necessary to authorize increased damages. But read in the context of the history of increased damages in Congress and the courts, as well as the legislative history of the America Invents Act itself, Section 298 provides further evidence that increased damages are reserved for only willful infringement.

C. The Willfulness Requirement Reflects Common Law And Due Process Requirements For Punitive Damages.

As discussed above, and as the government concedes, increased damages under Section 284 are

punitive. US Br. 17. Section 284's willfulness requirement reflects the historical common law and due process requirements for the award of punitive damages.

1. An initial teaching of the common law, which is reflected in the willfulness requirement, is that the imposition of punitive damages must be justified by the misconduct itself. As this Court explained in *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 493 (2008), "[t]he prevailing rule in American courts . . . limits punitive damages to cases of . . . 'enormity,' where a defendant's conduct is 'outrageous.'" *See also* Restatement (Second) of Torts § 908(1) (1979) ("Punitive damages are damages . . . awarded against a person to punish him for his outrageous conduct and to deter him and others like him from similar conduct in the future."). Indeed, this common law principle has a constitutional dimension: this Court has held that, as a matter of due process, the punishment imposed upon the defendant must be "for the conduct that harmed the plaintiff, not for being an unsavory individual or business." *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 423 (2003).

The text of Section 284 codifies the background rule that punitive damages must be based on the underlying tortious conduct. The "damages" that may be increased under the second paragraph of Section 284 are the "damages . . . *for the infringement*" described in the first paragraph. 35 U.S.C. § 284 (emphasis added). In the end, the total award—including the enhancement—is always damages "for the infringement." Thus, contrary to Stryker's suggestion in the companion case, Section 284 does not authorize a district court to pile on

additional damages based on other bad acts of the defendant. Stryker Br. 30-32.

For example, increased damages are not available to recover the fees associated with a defendant's abusive conduct in litigation—that is separately provided for by Section 285 under the standard set forth in *Octane*. Likewise, enhancement is not available to cover the harm associated with the delayed payment of a royalty to which the patentee is entitled—a patent owner's right to recover interest is separately provided for under the first paragraph of Section 284, and it has nothing to do with the punitive purposes of increased damages. *See generally Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983).[5]

This Court's recognition that increased damages for patent infringement are punitive also precludes any enhancement for compensatory purposes. *See, e.g.*, *Tilghman*, 125 U.S. at 143-44 (describing increased patent damages as "punitive"). Indeed, to use increased damages to correct for perceived shortfalls in compensation, *see* Stryker Br. 42, conflicts with the text of Section 284 itself, which requires that the award of actual damages be "adequate to compensate

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[5] Petitioners cite *General Motors*'s interpretation of Section 284's prejudgment interest provision to suggest that it is improper to read the increased damages provision to include any constraints. Halo Br. 19; Stryker Br. 20. But *General Motors* distinguished the prejudgment interest provision, which Congress added for the first time in 1946, from a case—like this one—"in which Congress has reenacted statutory language that the courts had interpreted in a particular way," in which it "may well be appropriate to infer that Congress intended to adopt the established judicial interpretation." 461 U.S. at 653. Indeed, Halo agrees that increased damages are limited by "this Court's historical practice." Halo Br. 19. The parties dispute only the extent of those limits.

for the infringement." It is the patent owner's burden to "show his damages by evidence" at trial, and in the end, the damages "must be proved, and not guessed at." *Philip v. Nock*, 84 U.S. (17 Wall.) 460, 462 (1873). A disappointed patentee may challenge the jury's compensatory award in the court of appeals, but he may not correct his own failure to persuade the jury by appealing to the district judge's authority to increase damages under Section 284. *Cf. State Farm*, 538 U.S. at 419 ("It should be presumed a plaintiff has been made whole for his injuries by compensatory damages . . . ."). The damages found by the jury are by statutory definition "adequate to compensate for the infringement."[6] Moreover, the suggestion that district judges can award additional compensatory damages raises serious Seventh Amendment concerns. *See Cooper Indus., Inc. v. Leatherman Tool Grp., Inc.*, 532 U.S. 424 , 437 (2001) (distinguishing between "the level of punitive damages," which "is not really a 'fact,'" and "the measure of actual damages suffered, which presents a question of historical or predictive fact" and thus "implicate[s] Seventh Amendment concerns").

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[6] Where a defendant's wrongdoing makes it difficult for the plaintiff to establish the precise amount of its injury, the courts in patent, as in other, cases invoke the principles of *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 563 (1931), to ease the plaintiff's burden; they do not simply "increase" damages over and above what the plaintiff has been able to prove. The suggestion of *amicus* Nokia that the Federal Circuit has used Section 284's enhancement authority to address patentees' inability to establish compensatory damages badly misreads the cases it cites. Nokia Br. 10. Those cases merely reflect that damages "adequate to compensate for the infringement" under Section 284 may exceed the "reasonable royalty" that is the statutory minimum.

Stryker's brief in the companion case relies on decisions of lower courts suggesting that increased damages may sometimes have been awarded for compensatory purposes, particularly before the Patent Act was amended to permit injunctive relief. Stryker Br. 30-34. But Stryker's reliance on these early cases is misplaced.

First, the lower court cases suggesting a compensatory purpose for enhancement conflict with this Court's repeated recognition that increased patent damages are punitive. *See Tilghman*, 125 U.S. at 143-44; *Seymour*, 57 U.S. (16 How.) at 489 (referring to "vindictive or punitive damages"); *Dean*, 61 U.S. (20 How.) at 203 (referring to court's power "to punish . . . by an increase of the damages"); *Root*, 105 U.S. at 196 (citing court's power "to inflict punitive damages"). As recently as 2008, this Court noted that Section 284 is an example of a statute that "peg[ged] punitive to compensatory damages using a ratio or maximum multiple." *Exxon*, 554 U.S. at 506-07.

Second, as this Court recognized in *Exxon*, the general understanding of the purposes of punitive awards has evolved over time, and "[r]egardless of the alternative rationales over the years, the consensus today is that punitives are aimed not at compensation but principally at retribution and deterring harmful conduct." *Id.* at 492 & n.9; *see also* Restatement (Second) of Torts § 908 cmt. a ("The purposes of awarding punitive damages . . . are to punish the person doing the wrongful act and to discourage him and others from similar conduct in the future."). To the extent that early discussions of increased patent damages sometimes stray from the remedy's core punitive function, they are best understood as relics of a bygone era. And even if the

predecessors to Section 284 had permitted enhancement for compensatory purposes, the addition of the statutory requirement that the jury's damages award be "adequate" compensation would have superseded the earlier rule. *Compare, e.g.*, 35 U.S.C. § 67 (1946) (providing merely for "damages for the infringement"), *with id.* § 284 (providing for "damages *adequate to compensate* for the infringement" (emphasis added)).[7]

Moreover, Stryker's suggestion that increased damages were also used as a substitute for injunctive relief only undercuts its argument that enhancements were sometimes compensatory. Stryker Br. 30. "[C]ompensatory damages are quintessentially backward looking," and are intended "to make victims whole" following an injury caused by the defendant's tortious conduct. *Landgraf v. USI Film Prods.*, 511 U.S. 244, 282 (1994). In contrast, a punitive award is at least partly forward-looking, because the increase is justified by the need to deter future misconduct. Thus, cases that used enhancement's deterrent function as a substitute for

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[7] For similar reasons, Petitioners are wrong to suggest that ambiguous references in this Court's early cases to a patent owner's "unnecessary expense" or an accused infringer's litigiousness cast doubt on the well-established willfulness requirement. *See, e.g.*, Halo Br. 15 (citing *Teese v. Huntingdon*, 64 U.S. (23 How.) 2, 9 (1860), and *Day v. Woodworth*, 54 U.S. (13 How.) 363, 372 (1852)); Stryker Br. 30-31 (citing *Day* and *Clark v. Wooster*, 119 U.S. 322, 326 (1886)). None of the cases actually holds that litigation misconduct on its own—without any showing of willfulness—can authorize increased damages. And as Stryker acknowledges in the companion case, the "need to compensate some prevailing parties for their litigation expenses" has been addressed by a separate provision of the Patent Act since 1946. Stryker Br. 30 n.5 (citing 35 U.S.C. § 285).

injunctive relief further support the view that increased patent damages are punitive.

2. The common law of punitive damages does not merely preclude compensatory enhancements; it also constrains the circumstances in which a punitive award may be given. This Court has said, for example, that a plaintiff may recover only compensatory damages, "unless [the tortious act] was done wilfully, or was the result of that reckless indifference to the rights of others which is equivalent to an intentional violation of them." *Smith v. Wade*, 461 U.S. 30, 42 (1983) (emphasis removed) (quoting *Milwaukee & St. Paul Ry. v. Arms*, 91 U.S. 489, 493 (1876)); *see also Exxon*, 554 U.S. at 493 (noting rule that conduct must be "'outrageous,' owing to 'gross negligence,' 'willful, wanton, and reckless indifference for the rights of others,' or behavior even more deplorable" (internal citation omitted)); *Phila., Wilmington & Balt. R.R. v. Quigley*, 62 U.S. (21 How.) 202, 214 (1859) (explaining that injury must be "inflicted maliciously or wantonly"); Restatement (Second) of Torts § 908(2) (describing requirement that conduct be "outrageous, because of the defendant's evil motive or his reckless indifference to the rights of others"). The willfulness requirement for increased patent damages is consistent with these established common-law constraints.

To be sure, the cases use a variety of terms to identify the types of conduct that will authorize a punitive award. But the various terms—"willful," "wanton," "reckless," and the like—are largely interchangeable in practice. *See Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 57 (2007) (noting that "willfulness" is "generally taken . . . to cover not only knowing violations of a standard, but reckless ones as

well. This construction reflects common law usage, which treated actions in 'reckless disregard' of the law as 'willful' violations." (internal citations omitted)); *see also Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 126 (1985) (holding that a "reckless disregard" standard was appropriate for ADEA's increased damages provision for "willful" violations); W. Keeton et al., *Prosser and Keeton on Law of Torts* § 34, at 212 (5th ed. 1984) (noting that any "distinctions [among the terms 'willful,' 'wanton,' and 'reckless'] have consistently been ignored, and the three terms have been treated as meaning the same thing, or at least as coming out at the same legal exit").[8] As the *Safeco* Court explained, the "common law has generally understood" the requisite "recklessness" (or its equivalents) "as conduct violating an objective standard: action entailing 'an unjustifiably high risk of harm that is either known or so obvious that it should be known.'" 551 U.S. at 68 (quoting *Farmer v. Brennan*, 511 U.S. 825, 836 (1994)).

Thus, at a minimum, the willfulness requirement for increased patent damages means that increased damages are authorized only where the defendant acted notwithstanding an objectively high risk, based on known or obvious facts, that his conduct would cause harm, *i.e.*, violate the plaintiff's legitimate patent rights.

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[8] For this reason, the suggestion of the government and *amicus* Ericsson that this Court's passing use of the disjunctive "or" in *Aro II* implied some distinction between "willful" and "bad-faith" infringement is misplaced. US Br. 25; Ericsson Br. 23.

II. *SEAGATE'S* TEST FOR INCREASED DAMAGES, AS APPLIED IN THIS CASE, APPROPRIATELY IMPLEMENTS THE WILLFULNESS REQUIREMENT.

In many respects, *Seagate* is an unremarkable case. Taking the willfulness requirement as its starting point, the *Seagate* court simply applied an established "recklessness" standard, as the courts of appeals had done long before the creation of the Federal Circuit, and as has long been applied in the punitive damages context more broadly.

What makes *Seagate* a seminal decision is that it overruled the aberrant and patent-specific "duty of due care" approach to increased damages that culminated in *Underwater Devices*. That approach caused an explosion of allegations of willful infringement and the rise of a cottage industry in "opinions of counsel."[9] Neither the Petitioners in these companion cases nor the government overtly advocates a return to *Underwater Devices*, and for good reason. The Federal Circuit was right to overrule *Underwater Devices*, and it was right to establish a standard informed by this Court's precedent on willfulness and increased damages.

A. *Seagate* Implements The Willfulness Requirement By Applying An Established Recklessness Standard.

1. Relying on this Court's decisions in *Seymour*, *Aro II*, and *Dowling*, the *Seagate* court took the willfulness requirement for increased patent damages

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[9] *See, e.g., Knorr-Bremse*, 383 F.3d at 1351 (Dyk, J., dissenting-in-part) (noting that "the due care requirement has fostered . a cottage industry of window-dressing legal opinions by third party counsel").

as a given. 497 F.3d at 1368. The question before the *en banc* Federal Circuit was whether to adhere to a regime that equated willfulness with mere negligence (*i.e.*, "duty of due care"), or whether to bring the willfulness requirement in patent law into harmony with willfulness in copyright and other civil law domains by requiring at least a showing of recklessness.

Seagate correctly took the latter course. The court noted that the "willfulness" required for increased statutory damages under the Copyright Act had "consistently been defined as including reckless behavior," *id.* at 1370 (citing cases),[10] and that a mere negligence standard for willfulness conflicted with the common understanding of the term in civil litigation and with this Court's punitive damages precedent, *id.* at 1370-71.

The Federal Circuit placed particular emphasis on this Court's decision in *Safeco*, 551 U.S. 47, which involved an analogous statutory scheme permitting the award of punitive damages for willful statutory violations. *Id.* at 53. In *Safeco*, this Court looked to "the traditional understanding of willfulness in the civil sphere" and held that a "willful" violation of the Fair Credit Reporting Act need not be a *knowing* violation—recklessness would also suffice. *Id.* at 59;

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[10] In the companion case, Stryker makes much of the fact that increased damages are authorized for certain Lanham Act violations without a showing of willfulness. *See* Stryker Br. 21-22. But increased damages under the Lanham Act are compensatory by statutory definition, *see* 15 U.S.C. § 1117(a), and therefore the culpability of the defendant is irrelevant. Nevertheless, as Stryker acknowledges, increased damages for copyright infringement and certain trademark claims are only authorized upon a finding of willfulness, Stryker Br. 20-21, consistent with the *Seagate* approach.

see also id. at 57 ("This construction reflects common law usage, which treated actions in 'reckless disregard' of the law as 'willful' violations."). *Seagate* followed *Safeco*'s lead to conclude that the willfulness requirement for increased patent damages could be satisfied by a showing of recklessness.

To understand the contours of the recklessness standard, *Seagate* again looked to this Court. *See* 497 F.3d at 1371 (discussing *Farmer*, 511 U.S. 825). *Farmer* teaches that the "civil law generally calls a person reckless who acts . . . in the face of an unjustifiably high risk of harm that is either known or so obvious that it should be known." 511 U.S. at 836. This is the *Seagate* test. Enhancement is permissible when infringement is reckless under *Farmer*, and not otherwise. The "two-prong" approach associated with *Seagate* is simply the division of the civil law standard identified in *Farmer* into its two constituent elements for efficient, consistent application.

Recklessness has an objective component (the actual risk of harm) and a subjective component (the defendant's relevant knowledge). To avoid needless disputes over the discovery of privileged attorney-client communications—which would relate to the defendant's subjective knowledge of the risk—the *Seagate* court started with the objective inquiry. If there is no "unjustifiably high risk of harm," *i.e.*, an unjustifiably high risk that the defendant's conduct would violate the patent laws, there is no need to consider the defendant's subjective thought process. Infringement can justify a punitive enhancement only where the conduct was objectively likely to infringe a valid patent.

This Court could reassemble the two-part *Seagate* test and apply the *Farmer* standard directly, but

nothing of substance would change. The subjective and objective elements of *Seagate* necessarily flow from the common law recklessness standard.

2. *Seagate*'s application of a recklessness standard was appropriate in light of this Court's precedent. In *Milwaukee & St. Paul Railway v. Arms*, 91 U.S. 489, 493 (1876), for example, this Court explained that punitive damages were limited to cases where the wrongful act "was done wilfully, or was the result of that reckless indifference to the rights of others which is equivalent to an intentional violation of them." Likewise, *Safeco* noted that the "standard civil usage" treated "'reckless disregard' of the law as 'willful' violations." 551 U.S. at 57; *see also* Restatement (Second) of Torts § 908(2) (describing requirement that conduct be "outrageous, because of the defendant's evil motive or his reckless indifference to the rights of others").

Petitioners and the government each take issue with *Seagate*'s reliance on *Safeco*, but all of their concerns are misplaced.

First, Petitioners and the government argue that *Safeco*, which interpreted the term "willfully" in the Fair Credit Reporting Act, does not speak to the requirements for increased damages under Section 284. Halo Br. 23; Stryker Br. 45-46; US Br. 26-27. This argument is a red herring. *Seagate* does not look to *Safeco* for the willfulness requirement—that came from this Court's decisions in *Seymour*, *Aro II*, and *Dowling* and the history of Section 284 itself. Nor does *Safeco* even provide the definition of recklessness on which *Seagate* is based—that comes from *Farmer*. What *Safeco* persuasively teaches is that willfulness requires at a minimum a showing of recklessness under traditional common law

principles. There should not be any controversy on this point.

Second, Petitioners and the government emphasize that *Safeco* also allows willfulness to be shown by "knowing" misconduct. *E.g.*, Halo Br. 23. This much is true but irrelevant. As a logical matter, a defendant cannot *know* that his conduct violates the plaintiff's patent rights when the scope and validity of those rights is subject to reasonable dispute prior to resolution at trial. And as a practical matter, Halo cannot (and has not even attempted to) establish that Pulse *knew* it was infringing Halo's valid patent rights. Instead, the allegation all along has been that Pulse was reckless, and both the Federal Circuit and the district court rejected Halo's position. In short, Halo could not even show that Pulse was reckless, and it cannot possibly establish a "knowing" violation, which is a "more serious subcategory" of willfulness. *Safeco*, 551 U.S. at 59.

Finally, Petitioners and the government take issue with how *Seagate*'s objective prong permits the consideration of risk from the perspective of the reasonable person—without inquiring into the actual state of mind of the accused infringer. For example, under *Seagate*, infringement could not be reckless enough to support increased damages if every patent lawyer the defendant could consult would have told him with confidence that the patent in question is very likely invalid. (There simply would not be "an objectively high likelihood" that the act would "infringe[] . . . a valid patent." 497 F.3d at 1371.) But Petitioners and the government would demand to know whether the defendant *actually* consulted a lawyer, something that is now irrelevant under Section 298. If the infringer did not know about the specific invalidity defense at the time—no matter

how strong the defense might be—then in Petitioners' and the government's view, his conduct could not be objectively reasonable.

This approach is untenable. Most immediately, it guts recklessness of its objective component. Conduct is reckless when it involves an objectively high risk of harm, not when the actor misperceives the risk—thinking it may be high when it is objectively low—or simply fails to consider the risk one way or another. If two defendants stumble onto a questionable patent by engaging in identical activity, but only one calls a lawyer who tells him (the objective truth) that the patent is likely invalid, *neither* one has acted recklessly, and neither should be subject to increased damages.

The government's brief brings this problem sharply into focus. The government says that, given the "sophistication and ingenuity of the patent bar," lawyers "will generally be able to come up with plausible arguments that [a] patent is invalid or not infringed." US Br. 26 (quoting Lemley & Tangri, *Ending Patent Law's Willfulness Game*, 18 Berkeley Tech. L.J. 1085, 1092 (2003)). If this is true, one might be tempted to conclude that there should not be many cases in which increased damages are awarded, because there are few cases in which infringement is objectively obvious. *Cf. Carr*, 5 F. Cas. at 145 ("There can be rarely occasion for vindictive damages; because, almost invariably, the infringement arises out of some colorable claim of right, by the party sued."). But the government instead uses this premise to argue for a massive expansion of the cases in which increased damages will be available. In the government's view—and in a move that would resurrect in part the discredited *Underwater Devices* regime—the defendant who

actually calls an "ingenious" and "sophisticated" patent lawyer will escape treble damages, but the defendant who does not call such a lawyer (and perhaps cannot afford one) will not.

B. Halo Cannot Establish Willful Infringement Under Any Appropriate Test.

Although Halo's Petition focused solely on *Seagate*'s recklessness standard, its brief, like Stryker's, raises a number of other concerns with how *Seagate* is applied, including with respect to the standard of proof, the standards of appellate review, and the like. *E.g.*, Halo Br. 25-26. None of these details could change the result in this case, however, because Halo cannot establish willful infringement under any appropriate test.

The modern *Seagate* test may have its critics, but the lower courts have long held that honest doubts as to the validity of a patent preclude a finding of willfulness, and thus preclude increased damages. *See, e.g.*, *Guyon*, 1 Blatchf. at 246 (holding enhancement was not warranted where defendant "honestly supposed that [the patent] was void"); *Enter. Mfg. Co. v. Shakespeare Co.*, 141 F.2d 916, 921 (6th Cir. 1944) ("If honestly mistaken as to a reasonably debatable question of validity, an infringer should not be made to smart in punitive damages."); *Rockwood*, 37 F.2d at 66 (denying punitive damages where "validity of the patent and its infringement was open to honest doubt"); *Wilden Pump & Eng'g*, 655 F.2d at 989 ("Wilfulness is established only where it is shown that there was a deliberate purpose to infringe, and such a purpose is not found where the validity of the patent and any possible infringement is open to honest doubt." (quoting *Int'l Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 728 (9th Cir. 1964))). The reason for this consistent

thread in the cases is straightforward. There can be no willful violation of a known right where the existence of the right itself is unclear.[11]

In this case, there is no dispute that a Pulse engineer reviewed the patents promptly upon Pulse's receipt of Halo's 2002 letters referencing them. The engineer concluded that the patents were likely invalid in light of the prior art, which included Pulse's own products, and no further inquiry was made or required until five years later, when Halo actually accused Pulse of infringement by suing it. Pulse prevailed in establishing that most of the accused sales were not infringing at all, and it presented a strong invalidity defense built on the same principles that led the Pulse engineer to conclude years earlier that the patents were invalid. In these circumstances—under any reasonable standard for establishing willfulness, and regardless of the standard of proof—Pulse's conduct was not willful and did not justify a punitive award of increased damages.

Nevertheless, the clear and convincing standard of proof is well-justified. Where, as here, Congress has not prescribed a standard of proof, the courts must determine the appropriate standard. *See Steadman*

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[11] *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920 (2015), is not to the contrary. *Commil* held that an indirect infringer could not escape liability under 35 U.S.C. § 271(b) by establishing a good-faith belief in the invalidity of the patent, because Section 271(b) referred only to "infringement," which "is a different issue than validity." *Id.* at 1928. As Stryker concedes in the companion case, "[n]o such textual bar is presented here." Stryker Br. 40 n.10. For its part, Halo does not even mention *Commil*, much less argue that it bars consideration of the defendant's good-faith argument that a patent is invalid.

v. SEC, 450 U.S. 91, 95 (1981). In doing so, the courts ultimately make a policy decision regarding how best to "allocate the risk of error between the litigants and to indicate the relative importance attached to the ultimate decision." *Addington v. Texas*, 441 U.S. 418, 423 (1979). Although the baseline standard in civil litigation is generally a "preponderance of the evidence," there is an emerging consensus that punitive damages should be subject to a "clear and convincing" standard.[12] This consensus reflects the implicit and sound policy judgment—reflected in *Seagate* as well—that erroneously

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[12] *See Pac. Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 23 n.11 (1991) ("[T]here is much to be said in favor of a State's requiring, as many do, a standard of 'clear and convincing evidence' or, even, 'beyond a reasonable doubt'" (internal citation omitted)); *see also* Alaska Stat. § 09.17.020(b); *Hobart Corp. v. Scoggins*, 776 So. 2d 56, 58 (Ala. 2000) (per curiam); *Thompson v. Better-Bilt Aluminum Prods. Co.*, 832 P.2d 203, 210 (Ariz. 1992); Ark. Code Ann. § 16-55-207; Cal. Civil Code § 3294(a); *Jonathan Woodner Co. v. Breeden*, 665 A.2d 929, 938 (D.C. 1995); Fla. Stat. § 768.725; Ga. Code Ann. § 51-12-5.1(b); *Amfac, Inc. v. Waikiki Beachcomber Inv. Co.*, 839 P.2d 10, 37 (Haw. 1992); Idaho Code § 6-1604(1); Ind. Code § 34-51-3-2; *Reeves v. Carlson*, 969 P.2d 252, 313 (Kan. 1988); Ky. Rev. Stat. Ann. § 411.184(2); *Tuttle v. Raymond*, 494 A.2d 1353, 1354 (Me. 1985); *Owens-Ill., Inc. v. Zenobia*, 601 A.2d 633, 657 (Md. 1992); Minn. Stat. § 549.20(1)(a); Miss. Code Ann. § 11-1-65(1)(a); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. 1996); Mont. Code Ann. § 27-1-221(5); Nev. Rev. Stat. § 42.005(1); N.J. Stat. Ann. § 2A:15-5.12(a); N.C. Gen. Stat. § 1D-15(b); N.D. Cent. Code § 32-03.2-11(1); *Cabe v. Lunich*, 640 N.E.2d 159, 164 (Ohio 1994); Okla. Stat. tit. 23, § 9.1(B); Or. Rev. Stat. § 31.730(1); S.C. Code Ann. § 15-33-135; S.D. Codified Laws § 21-1-4.1; *Hodges v. S.C. Toof & Co.*, 833 S.W.2d 896, 901 (Tenn. 1992); Tex. Civ. Prac. & Rem. Code § 41.003; Utah Code Ann. § 78-18-1(1)(a); *Wangen v. Ford Motor Co.*, 294 N.W.2d 437, 457-58 (Wis. 1980); *cf.* Colo. Rev. Stat. § 13-25-127(2) (beyond a reasonable doubt).

punishing conduct that is *not* culpable is worse than failing to punish conduct that is culpable. *Cf.* 4 Blackstone, *Commentaries* *358 ("[B]etter that ten guilty persons escape, than that one innocent suffer."). In contrast, in the context of compensatory damages, there is no *a priori* reason to err on the side of imposing the costs of harm on the plaintiff or on the defendant, particularly in light of society's "minimal concern with the outcome" of a purely monetary dispute between two parties. *Addington*, 441 U.S. at 423.

III. A STANDARD THAT LIMITS ENHANCEMENT TO KNOWING OR OBJECTIVELY OBVIOUS VIOLATIONS ADVANCES THE OVERARCHING POLICIES OF THE PATENT ACT.

As demonstrated above, and as virtually all parties and *amici* now agree, increased damages under Section 284 are punitive damages. Such damages, as this Court has held, are awarded not to compensate the plaintiff—particularly in patent cases, where the statute separately requires damages "adequate to compensate for the infringement"—but to promote the public interest by punishing, and thereby discouraging, socially undesirable conduct.

First, to serve that public interest, punitive damages must be predictable, so that future actors have notice of what specific conduct they are supposed to avoid. Second, punitive damages also must be narrowly targeted at and limited to conduct that truly is socially undesirable, so that their too-ready availability does not discourage conduct that actually furthers the public interest or encourage conduct that does not. An increased damages regime of the kind proposed by Petitioners and some of their *amici*—in which the objective strength of

infringement defenses is irrelevant if the defenses were not identified and developed at the first inkling of a potential claim, and in which increased damages are awarded based on an ambiguous "totality of the circumstances" standard—fails both of these fundamental tests. A willfulness standard that authorizes enhancement only for intentional or reckless violations, whether under the Federal Circuit's specific *Seagate* formulation or some variation, is essential to ensure that increased damages serve, and do not undermine, their intended purpose.

A. A Too-Lenient Standard For Increased Damages Will Chill, Not Promote, Innovation.

Petitioners and their *amici* maintain, correctly, that one purpose of the Patent Act is to promote innovation and invention. They err, however, in assuming that the Act pursues this goal at all costs or that expanding the availability of increased damages would actually advance this goal.

As this Court has long made clear, the statutory design is far more balanced. For example, the Court recently explained:

> Patent protection is, after all, a two-edged sword. On the one hand, the promise of exclusive rights provides monetary incentives that lead to creation, invention, and discovery. On the other hand, that very exclusivity can impede the flow of information that might permit, indeed spur, invention, by, for example, raising the price of using the patented ideas once created, requiring potential users to conduct costly and time-consuming searches of existing patents and

> pending patent applications, and requiring the negotiation of complex licensing arrangements.

Mayo Collaborative Servs. v. Prometheus Labs., Inc., 132 S. Ct. 1289, 1305 (2012). It is a core policy of federal patent law that the public "should be encouraged to pursue innovations, creations, and new ideas beyond the inventor's exclusive rights." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 731 (2002).

Federal patent law therefore embodies "a careful balance" that recognizes "the need to promote innovation" by providing patent protection, while still facilitating the "imitation and refinement through imitation" that are "necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989). This balance between "motivating innovation and enlightenment by rewarding invention with patent protection on the one hand, and the interest in avoiding monopolies that unnecessarily stifle competition on the other, has been a feature of the federal patent laws since their inception." *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

The "delicate balance" reflected in the patent laws, *Festo Corp.*, 535 U.S. at 731, means that the public "has a paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope." *Medtronic, Inc. v. Mirowski Family Ventures, LLC*, 134 S. Ct. 843, 851 (2014) (omission in original). To accomplish that goal requires that the public—in particular, those who compete with patent owners and thus have the incentive to challenge a patent's validity and sweep—be able to contest both the reach of a patent's claims, by offering products and services that come up to the patent's very edge, and whether

the patent should exist at all, by proceeding in the face of patents of dubious validity. The public, after all, is free to use anything not within the scope of the "clear notice" a patent's claims must provide. *Nautilus Inc. v. Biosig Instr., Inc.*, 134 S. Ct. 2120, 2129 (2014). And the public is not "required to pay tribute to would-be monopolists without need or justification." *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

These public interests are well served by requiring that increased damages be available only for conduct that is both subjectively culpable and objectively unjustified. Intentional or reckless infringement of plainly valid patents is, as Petitioners maintain, conduct that should be discouraged. Such conduct furthers no public interest and, if left unchecked, can undermine the incentives for invention that patents are supposed to provide.

But because "[p]atent law seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten," *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 548 U.S. 124, 127 (2006) (Breyer, J. dissenting), an accused infringer's subjective state of mind cannot be the sole consideration. Rather, because the public interest requires that the limits and validity of patents be freely subject to challenge, an accused infringer's conduct must also be measured against an objective standard that considers the strength of the patent owner's claims of infringement and the strength of the defendant's defenses. The public interest is served when close questions as to patent scope and validity are raised and litigated, regardless of whether a particular accused infringer identified and addressed those questions when it first became aware

of the patent or only later. *See* 7 *Chisum on Patents* § 20.03[4][b][iii] (2009) (good faith challenges to patent scope and validity should be encouraged). As this Court recognized in *Octane*, the prospect of liability for treble damages can have a substantial chilling effect on conduct that serves the public interest. 134 S. Ct. at 1757.

A contrary rule—a rule that limits the inquiry only to defenses which the defendant fully developed at the outset—not only ignores the strong public interest in keeping patent monopolies "within their legitimate scope," *Medtronic*, 134 S. Ct. at 851, but also disregards practical realities. Modern sophisticated products can potentially implicate hundreds of patents, and companies that produce such products are routinely bombarded with demand letters, notices, licensing proposals, and the like.[13] A rule that required such companies, under threat of punitive damages, to drop what they are doing and launch full-blown analyses of patents they encounter or that are called to their attention by patent owners, often as in this case in entirely cursory and conclusory fashion, would be enormously inefficient and would divert massive resources from productive endeavors. As this case illustrates, a patent owner can send off notices or demands or licensing offers "very broadly and without prior investigation,"

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[13] *See, e.g.*, *Commil*, 135 S. Ct. at 1930 (discussing rise of an industry in which patent owners send demand letters "very broadly and without prior investigation, assert[ing] vague claims of infringement," to extract payments); Askeladden Br. 17-18 (discussing demand letters in financial industry); Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 Tex. L. Rev. 1991, 1992 (2007) ("[M]odern products such as microprocessors, cell phones, or memory devices can easily be covered by dozens or even hundreds of different patents.").

Commil USA, LLP v. Cisco Sys., Inc., 135 S. Ct. 1920, 1930 (2015), and with no risk of adverse consequences from an unfounded assertion.[14] The situation is very different for the recipient, if the failure immediately to identify and develop all potential defenses exposes it to the risk of punitive damages. Under such a regime, mere notice of a potentially applicable patent would require that the target of a notice identify and develop today every defense that it might later raise in the event of litigation. "[C]ostly and time-consuming searches of existing patents," *Mayo Collaborative*, 132 S. Ct. at 1305, and procuring opinions of counsel regarding non-infringement and invalidity at a cost of as much as $100,000 each (Public Knowledge Br. 9; Licensing Execs. Br. 19) may benefit the patent bar, but no one else.[15]

An objective standard based on the issues actually litigated avoids such inefficient, wasteful activity and preserves for the public the benefit of robust inquiry concerning patent scope and validity. It also promotes the deterrent function of punitive damages by enhancing predictability. The "totality of the circumstances" approach advocated by Petitioners and some *amici* would lead to utterly unpredictable and inconsistent outcomes and unintended consequences, resulting in no guidance at all regarding

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[14] This case is hardly the only, or the worst, example of such patent owner tactics. *Amicus* Public Knowledge cites a patent owner that sent more than 16,000 such notices in a two-year period. Public Knowledge Br. 26-27; *see also* Askeladden Br. 17-18, 24-25.

[15] To the extent that a relaxation of the willfulness standard resurrected the cottage industry in counsel opinions that had developed in the pre-*Seagate* era, it also would conflict with Congress's intent as reflected in 35 U.S.C. § 298.

what conduct is or is not subject to punishment. Such lack of guidance would undermine the primary justification for a punitive remedy like increased damages, *see Exxon*, 554 U.S. at 502 (to be effective, "a penalty should be reasonably predictable"), and would inevitably deter challenges to patent scope and validity that would advance the public interest. A standard that bases the award of increased damages on the objective merit of defenses presented in the litigation avoids those problems by ensuring that a clear, fully-litigated record is available to the public, and by making Federal Circuit review—under whatever standard—more meaningful as a guide to others.

B. A Too-Lenient Standard For Increased Damages Will Foster The Abusive Use Of Patents And Reintroduce Wasteful Practices Prevalent Before *Seagate*.

An expansion of increased damages would not only discourage conduct that serves the public interest, it would encourage conduct that does not. This is because patents today do not serve solely to protect and provide incentives for inventors, but have become, in many cases, instruments of extortion and financial speculation, directly and indirectly diverting resources from productive endeavors.

The Court is well aware of the rise of so-called non-practicing entities ("NPEs"), colloquially called "patent trolls." These firms use patents not to protect their inventive efforts—for they engage in none—but "primarily for obtaining licensing fees" from firms that actually provide goods and services to the public. *Commil*, 135 S. Ct. at 1930. These NPEs seek, as the Court has observed, "to obtain payments that are based more on the costs of defending litigation than on the merit of the patent claims." *Id.* Such entities

already wield significant leverage, particularly over younger, emergent firms, because of the high cost of patent litigation and the risk that a judge or jury in a plaintiff-friendly forum—where NPEs typically file their suits—might assess substantial compensatory damages.[16] That leverage often produces settlements that siphon funds from productive activities and increase prices to consumers, while leaving dubious patents untested. Providing an unbridled standard for increasing damages would only increase the threat posed by such NPEs, and the resulting diversion of productive resources and harm to consumer welfare, by "multiply[ing] the opportunities for holders of invalid patents to exact licensing agreements." *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 342 (1971).

If that were a necessary cost of deterring piracy and wanton misconduct, it might be a cost worth bearing, but that is not the case. Although Petitioners and their *amici* paint a picture of rampant deliberate infringement by unprincipled corporate predators, the reality is very different. Allegations of outright copying of patented inventions are extremely rare, and findings that copying actually occurred are rarer still. *See* Public Knowledge Br. 29. Patent litigation is enormously expensive, and no business, no matter how large and successful, can afford to incur that expense where it can be avoided. Beyond the litigation expense, the risk of large compensatory awards and injunctions provides more than sufficient incentive to respect legitimate patent rights—in a competitive global marketplace, rational businesses

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[16] As several *amici* note, NPEs disproportionately target smaller companies, and the Eastern District of Texas has become the forum of choice for NPE suits. *See, e.g.*, Public Knowledge Br. 7 n.4, 14-15.

do not invest in and launch products where there is a significant risk that they will be ordered to share the returns on their investments with third-party patent owners or, worse still, stop selling those products altogether. Petitioners' call for a sweeping expansion of increased damages is a solution to a problem that does not exist, but their proposal will make worse a problem (patent trolls) this Court has determined does exist.[17]

IV. NEITHER A WILLFUL INFRINGEMENT REQUIREMENT IN GENERAL, NOR THE SPECIFIC STANDARD APPLIED BY THE FEDERAL CIRCUIT, IS INCONSISTENT WITH THE COURT'S DECISIONS IN *OCTANE* AND *HIGHMARK*.

Petitioners and the government argue that *Seagate* conflicts with this Court's decisions in *Octane* and *Highmark*. But those decisions do not address increased damages or willful infringement, and they interpret a statute that has a vastly different history, purpose, and meaning than Section 284.

Octane concerned the interpretation of Section 285's "exceptional case" standard for the award of attorneys' fees. The Federal Circuit had imported the "sham litigation" exception to *Noerr-Pennington* antitrust immunity to hold that, absent specific misconduct, attorneys' fees under Section 285 may not be recovered from the patentee unless the suit was brought in subjective bad faith and was objectively baseless. *See Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc.*, 393 F.3d 1379, 1382 (Fed. Cir.

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[17] Petitioners' assertion that increased damages have become virtually unavailable since *Seagate* is incorrect. Where infringement is truly willful, increased damages are awarded. *See* Public Knowledge Br. 28.

2005). Unlike the willfulness requirement for increased damages, the *Brooks Furniture* rule was a recent innovation without any basis in statutory history or the decisions of this Court or the lower courts. *See Octane*, 134 S. Ct. at 1754 ("In 2005 . . . the Federal Circuit abandoned [its prior approach] in favor of [the *Brooks Furniture* rule].").

Octane does not conflict with *Seagate*. On the one hand, *Octane* does not purport to address Section 284 or its willfulness requirement in any way. And on the other hand, *Seagate* is not based on the sham litigation exception to *Noerr-Pennington* immunity, and it has nothing to do with the *Brooks Furniture* rule.

Similarly, *Highmark* does not militate against *Seagate* or the willfulness requirement. *Highmark* concerned the standard of appellate review for the discretionary decision whether to award attorneys' fees under Section 285. As *Highmark* recognized, the standard for appellate review for attorneys' fee determinations under Section 285 flowed directly from the discretionary nature of those determinations. *Highmark* sheds no light on the standard of review that should apply to the very different punitive damages decision under Section 284. In any event, because Pulse prevailed in the district court on willfulness, the standard of review is irrelevant in this case.

Sections 284 and 285 may be adjacent to one another in the U.S. Code as a matter of happenstance, but they have very little to do with one another. For one thing, Section 284 has a history that traces back to the 1836 Patent Act, with a consistent line of cases supporting the willfulness requirement that forms the backbone of the Federal Circuit standard. In contrast, the first time any fee-

shifting provision appeared in the Patent Act was in 1946, and the "exceptional case" standard at issue in *Octane* was not introduced until 1952. *Octane*, 134 S. Ct. at 1756. And as this Court explained in *Octane*, *Brooks Furniture* was not an application of a long-established rule—it was an abandonment of the standard that had been applied by the Federal Circuit (and the regional courts of appeals before it) for decades. *Id.* at 1754.

The two statutes also have different purposes. As discussed, Section 284 authorizes increased damages to punish and deter willful acts of patent infringement. In this respect, it is a one-sided, punitive statute with ancient roots in tort law, and it can be invoked only by the patentee. Section 285 has nothing to do with the culpability of the infringer's conduct, and it is not at all one-sided. Instead, the statute is designed to shift the costs of litigation (contrary to the normal "American rule") based on a party's exceptionally weak "litigating position" or "the unreasonable manner in which the case was litigated." *Id.* at 1756. As a cost-shifting provision, Section 285 is inherently compensatory, and it is available to patent owners and accused infringers alike.

Moreover, the policy considerations that militated in favor of the results in *Octane* and *Highmark* point to preserving the willfulness requirement in this case. One of the important consequences of the *Octane* rule was that—because it applied to all parties—it served to check (or at least not to encourage) the efforts of NPEs to extract unjustified settlements. And there was no substantial risk that adopting a particular rule for fee-shifting based on litigation conduct would interfere with innovation on the ground. But in this case, departing from the

established willfulness requirement will serve only the interests of patent owners, who will use the *in terrorem* effect of treble damages to demand ever higher royalties regardless of "the merit of the patent claims," *Commil*, 135 S. Ct. at 1930, increasing the cost of products and services provided to the public and reducing innovation.

Octane and *Highmark* are part of a line of this Court's recent cases in the patent domain, including *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), and *KSR International Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007), in which the Court has rejected a Federal Circuit innovation in patent law that imposed rigid requirements having no basis in the statute or historical precedent.

Seagate is different. Like the "clear and convincing" standard of proof for obviousness affirmed by this Court in *Microsoft*, 131 S. Ct. 2238, the willfulness requirement has a long history in this Court's cases, and it has survived (and indeed informed) many of Congress's amendments to the Patent Act. *Seagate* appropriately implements the willfulness requirement based on established common law standards and should be reaffirmed. But even if the Court were to modify *Seagate*, Halo still would not be entitled to increased damages under any reasonable application of the willfulness requirement.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be affirmed.

Respectfully submitted,

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